



M&A REPORT

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PUBLISHER

The **M&A Report** is a biannual publication issued by the ZEW – Leibniz Centre for European Economic Research und Bureau van Dijk. It uses the Zephyr database to report on current topics and developments in global mergers and acquisitions. The Zephyr database, which is updated on a daily basis, contains detailed information on over one million M&As, IPOs and private equity transactions around the world.

Project team M&A Report:

Alexander Kann, ZEW · Phone +49 621 1235-359 · alexander.kann@zew.de

Moritz Lubczyk, ZEW · Phone +49 621 1235-185 · moritz.lubczyk@zew.de

Ilona Tsanko, ZEW · Phone +49 621 1235-175 · ilona.tsanko@zew.de

Christine Knorr, Bureau van Dijk · Phone +49 69 963 665-45 · christine.knorr@bvinfo.com

Editors:

Sarah Tiedemann · Phone +49 621 1235-135 · sarah.tiedemann@zew.de

ZEW – Leibniz Centre for European Economic Research

L 7,1 · 68161 Mannheim · www.zew.de

President: Prof. Achim Wambach, PhD · Managing Director: Thomas Kohl

Bureau van Dijk Electronis Publishing GmbH

Hanauer Landstraße 175 – 179 · 60314 Frankfurt am Main

Phone +49 69 963 665-65 · Fax +49 69 963 665-50 · www.bvinfo.com

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Mergers and Acquisitions in Germany Start off Rather Cautiously in 2022

The ZEW-ZEPHYR M&A Index, established in 2005 to measure mergers and acquisitions (M&A) involving German companies, recorded the weakest start to the year since its introduction in 2022. M&A activity usually peaks in January. This year, however, the index stands at only 87 points at the beginning of the year, while in the last 16 years the average value for January was 131 points.

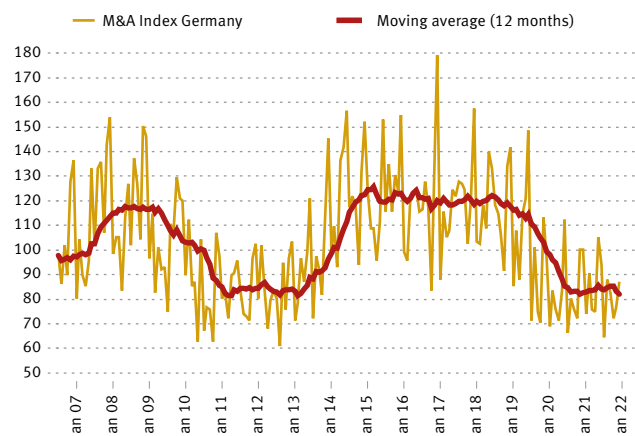
The past three years have been very turbulent for German companies and the start of this year does not suggest any improvement. The German elections should have provided more economic clarity, but the build-up of Russian troops on the Ukrainian border since November and the war have led to more uncertainty in the business landscape and a reluctance to make costly acquisitions. Taking the development of the index in the past as a basis for forecasts for the future, it will take some time

before an increase in mergers and acquisitions involving German companies can be seen again.

One of the most notable deals in the last six months involving a German firm was the takeover of the German automotive parts supplier Hella by its French competitor Fuarecia. The transaction was completed on 31 January, with Fuarecia acquiring Hella for four billion euros. Forvia, the company created by the merger, is now the fourth largest automotive parts supplier in Europe and the seventh largest in the world. Another high-profile deal was the acquisition of Allnex – a German manufacturer of industrial paints and coating materials – by PPT Global Chemical, a petrochemical company based in Thailand, for four billion euros as well. The acquisition was completed on 30 December. Both deals were announced in the summer of 2021.

Ilona Tsanko, Ilona.tsanko@zew.de

ZEW-ZEPHYR M&A INDEX GERMANY



Source: Zephyr database, Bureau van Dijk, calculations by ZEW

The ZEW-ZEPHYR M&A Index measures the number of M&A transactions completed in Germany each month. It considers only mergers and acquisitions by and with German companies. It does not differentiate between the country of origin of the buyer or partner. This means that both domestic and international buyer companies are considered, provided that the target companies are active in Germany. The M&A Report is a biannual publication issued by ZEW and Bureau van Dijk. It uses the Zephyr database to report current topics and developments in global mergers and acquisitions. The Zephyr database,

which is updated on a daily basis, contains detailed information on over 1.9 million mergers and acquisitions, IPOs, and private equity transactions around the world.



Have Mergers and Acquisitions Become Greener in the Past Decade?

Climate change is one of the key challenges of the 21st century and beyond. Over the last decade, people have become more aware of the perils of climate change, and movements such as Fridays for Future have emerged. In politics, too, climate issues are now high on the agenda, and green parties are experiencing a rise in popularity. For example, the German green party 'Bündnis 90/Die Grünen' are one of the coalition parties forming in the current federal government, having won the third most votes in last autumn's federal election. There is also a discernible trend in business towards more environmentally friendly technologies. An important question is whether this trend has also reached M&A deals.

To answer this question, it is worthwhile to look at the M&A rationales, i.e. the reasons that the companies involved in a merger or acquisition give for their transactions. This way, it is possible to see from their perspective why a takeover is advantageous for themselves and for society.

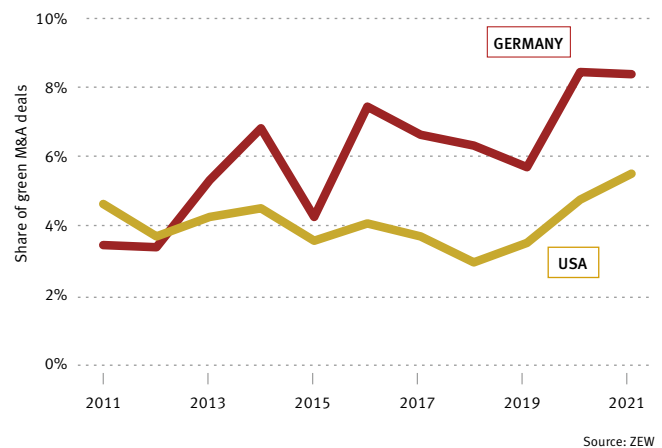
The number of deals in which 'green' keywords – such as 'sustainability' or 'renewable' – are mentioned in connection with a merger or acquisition has indeed increased in Germany and the USA over the last ten years. In Germany, only 3.5 per cent of the justifications for a merger or acquisition contained at least one green keyword in 2011; by 2021, this share had more than doubled, rising to 8.4 per cent. In the US, the share of green mergers and acquisitions did not grow quite as strongly. Between 2011 and 2021, the share increased from 4.6 to 5.5

per cent and actually declined by 2019. However, in both countries, the rise in the share of green M&A deals was particularly strong in the last two years.

It remains to be analysed whether this trend towards green M&A rationales is driven by companies that are actually concerned about sustainability or whether it is a case of greenwashing, i.e. an attempt to present themselves as environmentally conscious in order to improve their corporate image.

Alexander Kann, alexander.kann@zew.de

SHARE OF GREEN M&A DEALS



M&A Transactions in the Utilities Sector – Are There Signs of a Trend Reversal?

Even before the start of the COVID-19 pandemic, the transaction volume in the electricity, gas and water supply sector in the European Union had decreased significantly. This trend has continued, especially in 2020 and 2021. In these two years, the number of acquisitions of companies from the utilities sector reached its lowest level in the last ten years.

Electricity supply sector suffers greatest pandemic-related losses

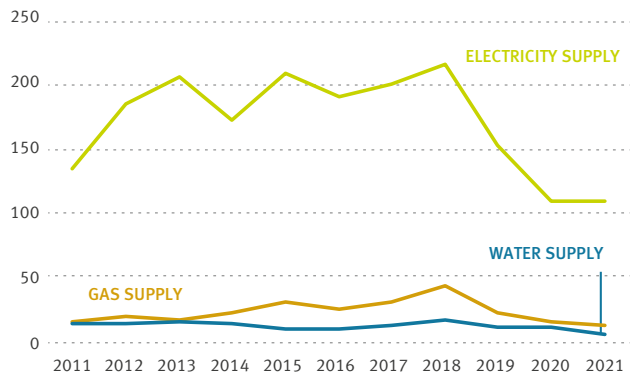
As in previous years, the electricity supply sector continues to record the largest number of takeovers. At the same time, this sector has also seen the heaviest losses as a result of the coronavirus pandemic.

The number of takeovers in the gas supply sector essentially follows a similar trend as in the electricity sector. Here, too, a significant decline can be observed in the years following a peak in transactions in 2018. The development of takeovers in the water supply sector, on the other hand, is somewhat different. Over the course of the years 2011 to 2021, it has remained at a relatively low but constant level.

However, the first signs of a reversal of this negative trend in the number of company takeovers in the utilities sector can be seen when looking at the development in industries that are closely related to this sector. For example, electricity, gas and water supply in particular are also infrastructure-intensive activities in which many other companies are involved, such as engineering firms or construction companies.



NUMBER OF COMPANY ACQUISITIONS IN THE UTILITIES SECTOR



Number of company acquisitions in the electricity, gas and water supply sectors in the years 2011 to 2021. The number of acquired companies within the European Union is considered and classified by sector. Some companies are active in several supply sectors. The sample encompasses a total of 2,281 acquisitions. Source: ZEW

Looking at the development of the number of company takeovers in engineering and planning offices linked to the utilities and energy sector, underground line construction and other utility-related services, 2021 shows a clear increase again for the first time.

Increase in takeovers in utilities-related industries

In the years before, the development in these sectors had essentially followed the trends generally prevailing in the utilities sector. However, it remains to be seen to what extent this renewed increase in takeover activity in the utility-related sectors of the economy will also herald a general trend reversal for the utilities and energy sector.

Moritz Lubczyk, moritz.lubczyk@zew.de

Iron Curtain in M&A Activities Between Eastern and Western Europe

Since the collapse of the Soviet Union and the fall of the Iron Curtain 30 years ago, Eastern European countries have been striving to integrate into Western economies. Although they have made progress and some Eastern European countries are now members of the European Union, they still have a lot of catching up to do, as GDP in Western Europe is more than twice that in the East. They also lag behind in terms of mergers and acquisitions: companies based in Eastern Europe almost exclusively acquire Eastern European firms.

An analysis of 176,215 M&A deals that took place in Europe between 2005 and 2021 shows that in less than one per cent of transactions involving a Western European target, the acquiring company was from Eastern Europe. This could be due to the economic disadvantage many companies in the former communist countries experience.

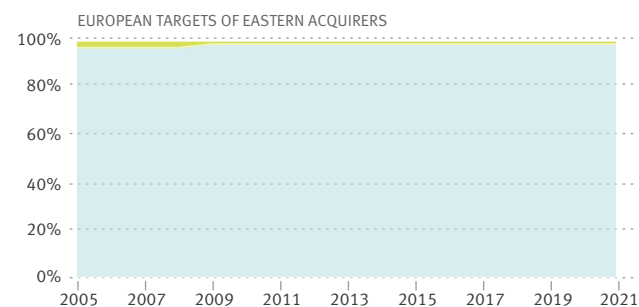
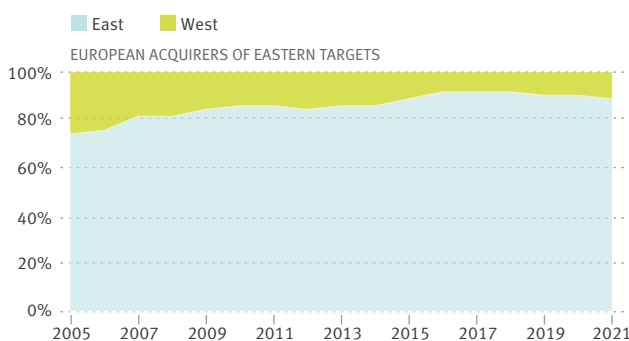
The picture is different for Eastern European target companies: at the beginning of the 2000s, the acquiring company came

from Western Europe in around 25 per cent of European M&A deals in which an Eastern European company was taken over. Until 2010, hopes were high that Eastern European countries would integrate economically and politically with the West; by 2007, eleven Eastern European countries had joined the EU. But since then, the share of intra-European deals with Western acquirers has gradually decreased to just eleven per cent in 2021. Following the events that took place in Ukraine in 2014, including the Maidan revolution, the start of the Donbas war and Russia’s annexation of Crimea, the decline has accelerated.

This trend is probably the result of growing uncertainty about geopolitical developments in the region, especially with regard to Russian ambitions. Russia’s attack on Ukraine took many companies by surprise, which could result in even less M&A activity between Western and Eastern Europe. The Iron Curtain may not have fallen completely after all.

Ilona Tsanko, ilona.tsanko@zew.de

M&A ACTIVITIES BETWEEN EASTERN AND WESTERN EUROPEAN COMPANIES (2000 – 2021)



Source: ZEW